

WESTERN DEPARTMENT STORES

REPORT to STOCKHOLDERS

January 31, 1955

Stores operated:

OLDS & KING

Portland
Est. 1851

KAHN'S

Oakland
Est. 1879

RHODES

Tacoma
Est. 1892

RHODES

Sacramento
Est. 1954

WESTERN DEPARTMENT STORES

A California Corporation

Incorporated in 1937

BOARD OF DIRECTORS

HAROLD V. BOGGS

JOHN J. GOLDBERG

R. L. CHILDS

ELLIOTT McALLISTER

HERBERT E. CLAYBURGH

JOHN J. REILLY

HERBERT I. DUNN

JOHN J. REILLY, JR.

F. A. WICKETT

OFFICERS

JOHN J. REILLY	President
JOHN J. REILLY, JR.	Executive Vice-President
HERBERT E. CLAYBURGH	Vice-President
HAROLD V. BOGGS	Vice-President and Manager of Kahn's
A. K. HUMBLE	Vice-President and Manager of Rhodes
R. L. CHILDS	Secretary and Treasurer
JOHN J. GOLDBERG	Assistant Secretary
L. L. RUSCH	Assistant Secretary
C. A. JOHNSTON	Assistant Secretary

LEGAL COUNSEL

JESSE H. STEINHART

PUBLIC ACCOUNTANTS

PRICE WATERHOUSE & Co.

TRANSFER AGENT

THE ANGLO CALIFORNIA NATIONAL BANK

No. 1 Sansome Street

San Francisco 20, California

REGISTRAR

WELLS FARGO BANK

Montgomery and Market Streets

San Francisco 4, California

Annual Stockholders' Meeting . . . Oakland, California, Tuesday, April 26, 1955, 11:00 o'clock A.M.
Executive Offices 1501 Broadway, Oakland, California (Kahn's)

OAKLAND 12, CALIFORNIA
April 1, 1955

To the Stockholders of
WESTERN DEPARTMENT STORES:

Submitted herewith are financial statements of your corporation for the fiscal year ending January 31, 1955, examined and reported upon by our independent auditors, Price Waterhouse & Co. These statements reflect the operation by the corporation of its four department stores: Kahn's, Oakland, California; Olds & King, Portland, Oregon; Rhodes, Tacoma, Washington; and Rhodes, Sacramento, California.

Sales for the year were \$31,858,117 compared with \$31,235,002 in the previous year, an increase of 2.0%.

Net income was \$1,091,369, equal to \$1.59 per share, compared with net income of \$1,099,308, equal to \$1.60 per share in the previous year.

Merchandise inventories on January 31, 1955, including goods in transit, were \$4,663,827 compared with \$4,007,653 on January 31, 1954.

Working capital of the corporation at the end of the year was \$7,822,006 compared with \$7,934,742 at the end of the previous year. The ratio of current assets to current liabilities was 3.12 to 1, compared with 3.23 to 1 the previous year.

Customers Accounts Receivable at the end of the year were \$5,748,886 compared with \$5,211,264 at the end of the previous year.

The corporation continued quarterly dividends at the rate of 20¢ per share and a dividend of 20¢ was paid April 1, 1955.

The corporation's contributions for the past year to the Profit Sharing Plan and to health and welfare plans totaled \$129,253, compared with \$131,940 for the previous year. At January 31, 1955 there were 985 employees participating in the Plan, which is 98% of the total number of employees eligible to participate.

On November 12, 1954, Western Department Stores' first new store, Rhodes, in suburban Sacramento, was opened for business and customer response has been satisfactory.

Last year the company entered into a new loan agreement with a bank, providing for additional borrowings which, when added to the outstanding balance of the present loan, will not exceed \$2,000,000. The additional borrowings were not made and the loan agreement has been extended to July 31, 1955.

Our appreciation is expressed to all of the employees of your corporation for their cooperation and assistance during the past year.

Notice of Annual Meeting of Stockholders and form of Proxy are enclosed. We hope you will attend; however, if you cannot be present, we will appreciate your completing and forwarding your proxy.

For the Board of Directors
JOHN J. REILLY, President

WESTERN DEPAI
(A California

BALANC

(See accompanying notes)

ASSETS

January 31

	1955	1954
Current Assets:		
Cash in banks and on hand.....	\$ 1,227,378	\$ 2,089,608
United States Treasury Certificates of Indebtedness (at cost, which is approximate market)		\$ 268,000
Accounts receivable:		
Customers, less provision for doubtful accounts—1955, \$202,939; 1954, \$219,213	\$ 5,545,947	\$ 4,992,051
Sundry	78,799	128,114
	<u>\$ 5,624,746</u>	<u>\$ 5,120,165</u>
Inventories of merchandise:		
On hand, at or below cost, as determined by the retail inventory method	\$ 4,289,585	\$ 3,685,368
In transit, at cost.....	374,242	322,285
	<u>\$ 4,663,827</u>	<u>\$ 4,007,653</u>
Total current assets.....	<u>\$11,515,951</u>	<u>\$11,485,426</u>
Miscellaneous Investments, Deposits and Advances:		
Store repairs and improvements, recoverable from lessor.....	\$ 113,375	\$ 128,837
Investments (at cost) and insurance and other deposits.....	88,270	89,270
	<u>\$ 201,645</u>	<u>\$ 218,107</u>
Properties, at cost:		
Buildings, furniture and fixtures, etc.....	\$ 2,766,379	\$ 2,110,496
Leasehold and improvements to leased buildings.....	3,634,889	3,562,733
	<u>\$ 6,401,268</u>	<u>\$ 5,673,229</u>
Less—Accumulated depreciation and amortization.....	2,779,976	2,518,291
	<u>\$ 3,621,292</u>	<u>\$ 3,154,938</u>
Land	51,500	51,500
	<u>\$ 3,672,792</u>	<u>\$ 3,206,438</u>
Unexpired Insurance, Prepaid Taxes and Other Deferred Expenses.....	<u>\$ 219,702</u>	<u>\$ 205,054</u>
	<u><u>\$15,610,090</u></u>	<u><u>\$15,115,025</u></u>

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LIABILITIES

	January 31	
	1955	1954
Current Liabilities:		
Accounts payable	\$ 1,628,359	\$ 1,434,643
Payrolls, taxes and other accrued liabilities.....	662,065	739,433
Federal taxes on income, estimated.....	1,203,521	1,176,608
Notes payable to bank—instalment due within one year (Note 1) ..	200,000	200,000
Total current liabilities.....	\$ 3,693,945	\$ 3,550,684
Note Payable to Bank (Instalments due after one year) (Note 1)	\$ 400,000	\$ 600,000
Employees' Subscriptions to Five Year Convertible Notes (Note 2)	\$ 38,245	\$ 29,026
Capital and Surplus:		
Common stock, par value \$0.25 per share:		
Shares authorized	1,200,000	
Shares issued	702,728	\$ 175,682
Less—In treasury	16,600	\$ 175,682
	686,128	
Other capital	1,850,390	1,850,390
Earned surplus, per accompanying statement (Note 1).....	9,451,828	8,909,243
	\$11,477,900	\$10,935,315
	\$15,610,090	\$15,115,025

WESTERN DEPARTMENT STORES
STATEMENT OF INCOME AND EARNED SURPLUS

	Year ended January 31	
	1955	1954
Net sales, including leased departments.....	\$31,858,117	\$31,235,002
Less—Sales of leased departments.....	5,571,966	5,524,963
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Cost of merchandise sold.....	\$26,286,151	\$25,710,039
	16,856,580	16,548,094
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Gross profit—own departments.....	\$ 9,429,571	\$ 9,161,945
Gross income from leased departments.....	741,442	738,547
Other income and credits.....	298,463	254,477
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	\$10,469,476	\$10,154,969
	<hr/>	<hr/>
Selling, general and administrative expenses.....	\$ 7,778,221	\$ 7,544,212
Contributions under profit-sharing retirement and health and welfare plans	129,253	131,940
Provision for depreciation and amortization.....	267,724	209,411
Interest expense	22,209	31,398
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	\$ 8,197,407	\$ 7,916,961
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	\$ 2,272,069	\$ 2,238,008
Provision for estimated federal taxes on income.....	1,180,700	1,138,700
	<hr/>	<hr/>
Net income for year.....	\$ 1,091,369	\$ 1,099,308
Earned surplus at beginning of year.....	8,909,243	8,358,718
	<hr/>	<hr/>
	\$10,000,612	\$ 9,458,026
Dividends paid in cash, \$0.80 per share each year.....	548,784	548,783
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Earned surplus at end of year (Note 1).....	\$ 9,451,828	\$ 8,909,243
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WESTERN DEPARTMENT STORES

NOTES TO FINANCIAL STATEMENTS

January 31 1955

NOTE 1:

The balance of the note is payable in annual instalments of \$200,000. During the year, the Company arranged for additional borrowings from a bank in an aggregate amount which, when added to the present loan, will not exceed \$2,000,000. This line of credit is available until July 31 1955 and the amount owing at that date will be converted into a note payable in annual instalments of \$200,000 commencing April 1 1956, with the balance payable on April 1 1962.

The loan agreement in force at January 31 1955 provides that, without the prior written consent of the bank, the Company will not declare or pay any dividends except from earnings subsequent to January 31 1947. The undistributed earned surplus since that date amounted to \$5,521,353. The Company has also agreed that during the term of the loan it will not permit its net current assets to decline below \$3,000,000 or its ratio of current assets to current liabilities to be less than two to one.

If the Company borrows funds under the new line of credit, the loan agreement provides that, without the prior written consent of the bank, the Company will not declare or pay any dividends except from earnings subsequent to January 31 1953. The undistributed earned surplus since that date amounted to \$1,093,110. The Company has also agreed that during the term of the loan it will not permit its net current assets to decline below \$6,000,000 or its ratio of current assets to current liabilities to be less than two to one.

NOTE 2:

Employee subscriptions to Five Year Convertible Notes at January 31 1955 were as follows:

Collections under 1951 subscription agreements to notes of a face value of \$24,200, maturing May 1 1956	\$17,588
Collections under 1952 subscription agreements to notes of a face value of \$45,000, maturing December 1 1957	20,657
	<u>\$38,245</u>

The subscription agreements provide that at least 1/60th of the purchase price shall be paid on execution of the agreement and at least 1/5th of the balance shall be paid annually thereafter; the agreements are not transferable. On termination of employment or at the election of employees, amounts paid in on subscriptions are refundable and all rights under the agreement cease. The Five Year Convertible Notes are to be issued when the full subscription price has been received and such notes and partial payments thereon bear interest at 3% per annum; the notes are convertible at any time on or before maturity, at the option of the holder during the continuance of his employment, into common stock in the ratio of 10 shares of stock for each \$110 of face value as to 1951 subscriptions, and in the ratio of 10 shares of stock for each \$100 of face value as to 1952 subscriptions. Subsequent to January 31 1955, 2,400 shares of stock were issued upon conversion of notes having a face value of \$25,200.

NOTE 3:

Leases for three of the stores provide for rentals computed as a percentage of sales, subject to a minimum annual rent; two of the leases expire in 1975 and the third in 1985. The lease for the fourth store, expiring in 1972, provides for a flat monthly rental plus real estate taxes in excess of a specified amount until 1957 and thereafter percentage rentals, subject to a minimum annual amount. The minimum annual rental obligation under these leases and the total amount of rent and other charges paid thereunder for the year ended January 31 1955 were \$591,000 and \$835,858 respectively.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of

WESTERN DEPARTMENT STORES:

In our opinion, the accompanying financial statements, together with the notes thereto, present fairly the position of Western Department Stores at January 31 1955 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of such statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & Co.

San Francisco
March 21 1955

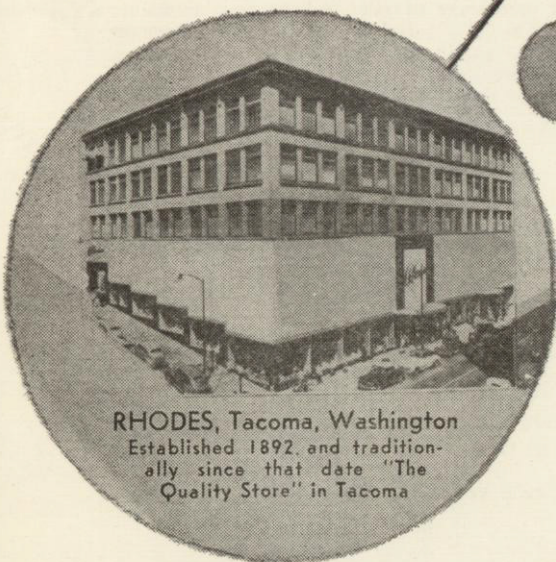


KAHN'S, Oakland, California
Established 1879. Oakland's
oldest store with Oakland's
youngest point of view

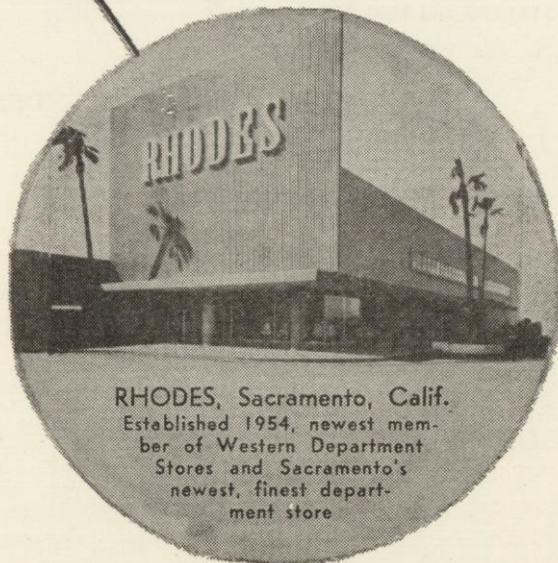


OLDS & KING, Portland, Ore.
Established 1851, for 104 years
the favorite shopping habit
of the City of Roses

YOUR FOUR WESTERN DEPARTMENT STORES



RHODES, Tacoma, Washington
Established 1892, and tradition-
ally since that date "The
Quality Store" in Tacoma



RHODES, Sacramento, Calif.
Established 1954, newest mem-
ber of Western Department
Stores and Sacramento's
newest, finest depart-
ment store